INDIAN INSTITUTE OF PUBLIC ADMINISTRATION

STATE UNDERTAKINGS

Report of a Conference

(DECEMBER 19-20, 1959)

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INTRODUCTION

The following pages give a short report of a two-day Conference on State Undertakings which was organised by this Institute on 19th and 20th December, 1959. Two years before, in December 1957, the Institute had organised a Seminar on the same subject and the present Conference was intended to be a continuation of the work done at the first one. Moreover, during these two years, developments of considerable importance had taken place in the field of public enterprises of which the two most important ones were the Life Insurance Corporation case and the publication of a report prepared by a Sub-Committee of the Congress Party in Parliament under the chairmanship of Shri V.K. Krishna Menon, Minister of Defence, on the question of Parliamentary Accountability of Public Enterprises.

As in the 1957 Seminar, a deliberate attempt was made to restrict the number of topics to be considered by the Conference in order to make the discussion more fruitful. Accordingly, two specific topics in relation to the Krishna Menon Committee Report were chosen for discussion, viz. (1) Board of Management - Constitution, membership, functions and relationships; and (2) accountability to Parliament including the question of a Standing Select Committee on public enterprises. The number of participants

was limited to about 20. Among them were included active managers from both public and private enterprises, teachers who have made special studies in the subject, Parliamentarians and Government officials. The following is the list of the participants.

1. Shri Ashok Mehta, M.P.

2. Dr. Gyan Chand,
Retd. Professor of Economics,
University of Patna.

3. Shri K.N. Kaul,
Chairman, National Mineral Development Corpn.

4. Shri S.S. Khera,
Secretary, Department of
Steel, Mines & Fuel.

5. Shri S. Lall,
Chairman, D.V.C.,

6. Shri D.L. Mazumdar,
Secretary, Department of Company
Law Administration.

7. Shri G.Pande,
Chairman, Hindustan Steel.

8. Shri M.V. Pylee,
Delhi School of Economics.

9. Shri R. Prasad,
Joint Secretary,
Ministry of Home Affairs.

10. Shri S. Ratnam,
O.S.D., Ministry of Commerce & Industry.

11. Shri R.P. Sarathy,
Additional Secretary,
Ministry of Defence.

12. Shri M.L. Seth,
    General Manager,
    Delhi Cloth Mills.

13. Shri Vishnu Sahay,
    Secretary to the Cabinet.

14. Shri J.M. Srinagesh,
    Managing Director,
    Indian Refineries.

15. Shri N.N.Wanchoo,
    Secretary, Ministry of Finance,
    Department of Expenditure.

16. Prof. A.H. Hanson,
    Visiting Professor,
    Indian School of Public Administration.

17. Prof. V.K.N. Menon,
    Director, Indian Institute of Public Administration

18. Shri M.S. Ramayyar,
    Dy.Director,
    Indian Institute of Public Administration.

19. Dr. Parmanand Prasad,
    Indian Institute of Public Administration.

20. Dr. H.K. Paranjape,
    Indian School of Public Administration.

Shri Vishnu Sahay presided and Shri S.S. Khera acted as the Director of the Conference. It is hoped that this report will make some useful contribution to the study of this important subject which has come to be of great importance in the public administration of our country.

The Institute is grateful to the participants in the Conference for their valuable cooperation.

This report has been prepared by Shri P.T. Kuriakose, till recently Assistant Research Officer of the Institute under the supervision of Dr.H.K. Paranjape, who was generally in charge of the organisation of the Conference

1-8-1960
New Delhi.

V.K.N. MENON
Director
Indian Institute of Public Administration

CONFERENCE ON STATE UNDERTAKINGS

December 19th & 20th, 1959.

I

Opening the discussion, the Director of the Conference said that the present Conference was taking place at an opportune moment in the study of the problems of public enterprise in India. Many developments had taken place since the previous seminar was held in the Institute two years ago and these made the present seminar of more topical interest. He then proposed that the Conference might take up for consideration the recommendation contained in paragraph 25 of the Krishna Menon Committee report regarding the Board of Directors. The recommendation was to the effect that the Boards of Directors of State enterprises should be, as a rule, what might be called functional Boards.

Policy Vs. Functional Board

In this connection, a participant made a distinction between a functional director and a full time director. He said that a functional Board would consist of persons who were also the operating heads of the various sections of the enterprise. But there could be a full-time member without having such a charge. The view was not contradicted.

A member pointed out that when one used the phrase "policy board", it had different connotations in the private and/public sectors: "The term policy used in the context of the private sector related to such things as rates of investments, pricing policy, connections with other enterprises, etc. In the public sector, policy in this sense is decided upon by the controlling ministry and the Board at best plays an advisory role".

Elaborating this point further another participant observed that while the major long-term policy for an enterprise might be laid down by the Government, there was what could be called "sub-policy" for the enterprise which the Board had to formulate. "So, every Board would have a certain amount of policy-making to do, but whether a Board should be/a predominantly policy board or a predominantly functional board would depend upon the size and the stage of development of the enterprise. In a big concern, for instance, persons would be needed to coordinate things like personnel policies, financial policies, production targets, etc. and this would entail full-time work. Such enterprises would probably require/a predominantly functional board. But the same may not be applicable to a smaller enterprise for which a predominantly policy board may be more useful".

Endorsing the above view, a participant said that just because Unilever, which was a private concern, had a functional Board, it did not mean that all private enterprise concerns choose such an arrangement. A rigid approach in dealing with the question would not be proper.

Another participant who had considerable experience of working as director in a functional board said that the Board that he was associated with had created a Standing Committee of three full time members the Chairman, an engineer and a financial expert. Until recently, the Standing Committee had been given full powers by the Board and the Board had very little to decide. Of course, all decisions of the Standing Committee were conveyed to all the Directors and they could comment on these at the next meeting of the Board. Recently, the position was reviewed and certain items of importance were reserved for the decision of the whole Board. The system was working quite satisfactorily. As this was a multi-plant concern, the General Managers of all the plants were members of the Board. In the light of his own experience he would favour a mixed board containing a partly functional element. If a Board was completely functional, then it would not be possible to include outside experts who otherwise

might be willing to serve on the Board. He had found that such experts could often provide immense help.

Strongly supporting the above view, another member said that there should be sufficient delegation of powers to the functional element, whether it be only the Managing Director or more than one Director.

Another member who had studied the practice in foreign countries said that in Britain mixed Boards were working well although it was too early to pronounce any judgement on it. One could not have a ready answer to this question because experience had shown that both types had worked very effectively. If the Unilever Board was an instance of a successful functional Board, the T V A Board was an example of a highly effective policy Board. If the making of "sub-policy" and its implementation was the function of the Board, it could be done equally effectively by both a policy Board and a functional Board. However, he said that if there was to be a policy Board, then it was essential to delegate as much power as possible to the Managing Director with the minimum of interference by the Board.

In this connection, there was a short discussion about the organisation of the enterprise itself. It was stated by some members that as industrialisation gained momentum and as new enterprises belonging to the same indus-try were

set up, problems of coordination or perhaps centralisation would arise. In that case such industries might have to be organised as the nationalised gas industry in the U.K. was organised viz. a federal structure with autonomous area boards and a Central Board composed mainly of representatives from the area Boards with specific overall functions allotted to it. It was generally agreed that the question was not whether we should have purely a functional or a policy board but whether it should be predominantly of one type or the other. It would be wrong to have a doctrinaire approach in the matter. The type of board will have to be suited to the nature of the enterprise.

II

Composition of the Board of Directors.

. The Conference then took up for consideration the question of the composition of the Board of Directors. Attention of the Conference was drawn by a participant to a sentence in para 25 of the Krishna Menon Committee Report which said: "Again while no uniform pattern can be laid down it may be said that a Board should consist of financial talent, administrative talent, technical skills, representatives of labour and personnel management. Therefore, normally, the Board should consist of a Chairman, the Managing Director (if there is one) someone who is a financial expert, not drawn from outside the company, one or more of the senior executives, the

chief production executive, a representative, wherever possible, of labour and often, one of the staff". He said that in the case of labour the report spoke of a representative while for the rest the emphasis was on skill. Why was it necessary, he asked, to emphasize skill in all other cases and representation in the case of labour?

A member expressed the opinion that since there was every likelihood of a conflict of interest between a trade union representative on the Board and the management as such and since every member of the Board had to give undivided loyalty to the Board, the principle of representation might prove harmful.

Endorsing the above view, another member said that appointment of a labour representative, even if he was not so designated, would in practice result in creating the problem of divided loyalties. As he put it, "The labour representative cannot wear two caps at the same time".

Citing the U.K. practice, one participant observed that in that country the phrase used in Acts setting up public enterprises was "persons with experience in organisation of labour" implying that what was stressed was expertise rather than representation. In fact where the directorship was a full time job a labour leader who had been appointed to the Board severed his connections with trade unions.

There was, however, one participant who said that the

principle of representation should not be condemned outright because he had experience of an enterprise where this principle had been applied and where it worked successfully.

Discussion then turned to the question of non-officials on the Boards. A participant who was also a Managing Director said that from his own experience he could testify to the immense value of having non-officials of knowledge and experience on the Board. It was of course necessary to make a proper selection.

Agreeing with this view, another member said that while selecting a person care should be taken to see that he had no interest in competing concerns.

He was supported by a participant who said that if the Krishna Menon Committee had been unfavourable to the inclusion of non-officials, it was not because the committee thought that non-officials could make no contribution, but because of the general suspicion that prevailed that non-officials, especially businessmen, might use their positions for the benefit of their private business interests. Therefore, it was necessary to see that those selected were above suspicion.

A view was also put forward that inclusion of non-officials was a good safeguard against complacency by the official members on the Board.

Several other participants, especially those with experience as Directors, expressed the view that non-officials had a positive contribution to make to the success of the enterprise provided due care was exercised while selecting them.

The Conference next took up the question of appointing government servants as Directors of State enterprises. Opinion was divided on the view expressed by the Krishna Menon Committee that Secretariat Officials should not be appointed as members of Board of Directors although a majority of members agreed with the recommendation.

One member said that a distinction should be made between two stages through which an enterprise had to pass viz. the constructional stage and the operational stage. He thought that association of officials during the first stage would be desirable for the purpose of closest liaison with the Ministry.

This was immediately countered by another member who said that such a distinction was unrealistic because many enterprises, while being in the operational stage, had vast expansion programmes under way. The Sindri Expansion Scheme was a case in point.

While supporting this point of view another participant still felt that whatever be the phase in which a particular undertaking was working, the Ministry would always be interested in

its success. And since these enterprises had to work in conformity with Government policy, the presence of Government officials would be helpful in the interpretation of Government policy.

A suggestion was made by a member that while secretariat officials need not be made members of the Board, officials of the concerned Ministries could be asked to attend the meetings of the Board because it was undeniable that these Ministries had an interest in the successful working of the enterprise. This practice was followed by the Reserve Bank of India.

This view, however, did not find favour with other members. One of them said that a representative of the Ministry attending meetings of the Board without being a member was not likely to take much interest in the enterprise. Two other participants who were intimately connected with important public enterprises felt that a part-time Director from the Ministry was "worse than useless". One of them said that if the purpose of their inclusion was also to control, the sooner the practice was given up, the better it would be.

Appointment of Members of Parliament as Directors was also discussed by the Conference. There was general agreement with the recommendation of the Krishna Menon Committee

report that M.P.s should not be made Directors. A member, however, said that a Member of Parliament should not be excluded from the Board simply because he was in Parliament if he was a competent person otherwise. But this did not find further support. As one member said, it might be true in theory, but would not work in practice. It entailed the danger of political patronage. Politicians who could not be given a Ministership might be made Directors and this was likely to undermine the efficiency of the enterprise. If their competence was useful to the enterprise, it was far more usefully employed in Parliament itself. Parliament should create agencies where their ability could be better utilised.

III

The Conference then passed on to the consideration of the question of accountability with particular reference to the recommendation of the Krishna Menon Committee to set up a Parliamentary committee on public undertakings.

Explaining the British experience in this regard one speaker said that surprisingly, till it was set up in 1956, every government, especially the Labour government, had opposed the idea. It was suggested that such a committee would unduly inhibit the initiative of the management. Nevertheless, disatisfaction among the members of Parliament persisted. They

considered it illogical that a Minister who often declined to answer questions in Parliament on State undertakings should defend them in Parliament. Since 1956 a permanent committee had been functioning and while it was too short a period to assess its success, on the whole it had been found to serve a very useful purpose. While the Committee had been vested with large powers, it used them with great discretion. It did not attempt to examine the working of each of the enterprises every year. Rather it scrutinised very carefully the functioning of one enterprise at a time. Although it could call witnesses from outside the enterprise it had not done so. Its working so far had demonstrated that the earlier fears of undue interference were unfounded.

The concensus of opinion in the Conference was in favour of setting up such a committee although one member suggested that in view of the fact that public enterprises in India were still at "the stage of infancy", it might be more advantageous if in the initial period the committee was set up for a period of five years only. But this view did not get any further support.

In this connection, it was pointed out by a member that the success of such a committee would depend upon the extent and nature of servicing available to it. At present the Public Accounts Committee examined the accounts of public enterprises and it had the services of the Comptroller and Auditor General.

Therefore, this servicing aspect had to be examined. He thought that it would be better if the special committee was given freedom to devise its own methods in this regard.

It was pointed out by a participant that in the U.K. since 1956 the Public Accounts Committee had nothing to do with the nationalised industries, and consequently the Comptroller and Auditor General also did not come into the picture. But it was very clear that the Committee should have expert assistance and this fact was clearly brought out in the latest report of the Select Committee.

Supporting the above viewpoint, another participant observed that under the provisions of the Company Law, the Comptroller and Auditor General had been given certain powers in matters of audit and accounts. This point had to be borne in mind while discussing the question of a special committee and expert aid being made available to it. For the committee to be effective, it was necessary to build up a convention that the Comptroller and Auditor General would not have anything to do with public enterprises. If need be, the existing company law should be amended.

Strong support was given to this view by several members. One of them reminded the participants that the Company Law was drawn up at a time when the company form of organisation had been

described as ~~a~~ fraud on the Constitution". He was of the opinion that with the institution of a special committee, the present law would have to be amended. Referring to the question of "high auditing" he said that this was not within the purview of the Comptroller and Auditor General. Another member said that experience so far indicated that double auditing was unnecessary.

A suggestion was made for the building up of expertise for carrying out some sort of efficiency audit. Such a body of experts could provide the necessary service to the Committee. This was considered difficult by others who pointed to the shortage of experts and the necessity to employ such experts as were available as 'doers' rather than 'watchmen'. Another participant with considerable experience of Parliamentary work pointed out that while expert examinations may be occasionally conducted, the Parliamentary Committee's task was not so much to carry out an examination with expert assistance as to provide a common-sense check up. A great majority of the members of Parliament came from rural areas and looked at big projects with a suspicious eye. This proposed committee can help to allay the suspicions of M.P.s and the public in general. The Committee could also be useful in creating an awareness and an understanding among M.P.s of the problems facing these enterprises.

A member complained that in India the Estimates Committee did not publish the evidence that was tendered before it and

this made an evaluation of the recommendations of the Committee more difficult.

Winding up the discussion the Director of the Seminar summed up with the following points which emerged from the discussion:-

a) it was desirable to have a special committee on the lines of the Committee in U.K. but its servicing agency should be different from the one available for audit; with the setting up of this committee, public enterprises should be excluded from the purview of other Parliamentary Committees;

b) the committee must earn the confidence of the management and vice versa;

c) it should publish its proceedings;

d) a greater degree of knowledge would help to creat a feeling of confidence and better understanding between managements and Parliament.
